

## Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-06 NEA-10 ISO-00 SP-02 AID-05 EB-07

NSC-05 CIEP-01 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02

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INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /113 W

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R 101000Z JUN 75

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 525

INFO AMEMBASSY MANILA

AMCONSUL KARACHI

AMCONSUL LAHORE

AMEMBASSY NEW DELHI

AMEMBASSY DACCA

USMISSION OECD PARIS

LIMITED OFFICIAL USE SECTION 1 OF 2 ISLAMABAD 5256

MANILA FOR USADB

E.O. 11652: N/A

TAGS: ECON, PK

SUBJ: PAKISTAN FY 1975- 76 BUDGET

1. SUMMARY. MINISTER OF FINANCE HANIF JUNE 7 H3 3,53\$  
\$3;3)90.3,5-ORIENTED BUDGET FOR FT 1975/76. BUDGET  
EXPENDITURES TOTAL RS. 28,235.8 MILLION(\$2,852 MILLION).  
DEVELOPMENT EXPENDITURES ARE EXPECTED TO BE 27 PERCENT  
ABOVE THE CURRENT YEAR, WITH FOOREIGN AID INFLOWS EQUAL TO  
84 PERCENT OF THE DEVELOPMENT BUDGET. HIGHEST PRIORITY WAS  
GIVEN TO AGRICULTURAL DEVELOPMENT AND INCREASING INVESTMENT.  
PLANNED NONDEVELOPMENT EXPENDITURES (INCLUDING DEFENSE)  
ARE ABOUT THE SAME AS 1974/75 FIGURES DESPITE CONTINUED  
STRONG INFLATION.  
MEASURES ANNOUNCED WITH THE BUDGET INCLUDED A NEW STATE-  
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MENT OF GOVERNMENT POLICY ON COMPENSATION IN CASE OF

NATIONALIZATION AND OTHER SAVINGS AND INVESTMENT INCENTIVES. VERY FEW TAX OR OTHER REVENUE MEASURES WERE INTRODUCED. THE TONE OF THE BUDGET SPEECH WAS BUSINESSLIKE, AND THE LEFT-WING RHETORIC FAMILIAR FROM EARLIER VJRFORMANCES WAS ENTIRELY ABSENT. WARM THANKS TO CONSORTIUM AND MULIM AID DONORS WERE COUPLED WITH EXHORTATIONS TO USE PAKISTAN'S RESOURCES TO THE FULLEST. MINISTER STATED GOVERNMENT ENTERPRISES EXPECTED TO PAY THEIR WAY. WE ARE ENCOURAGED BY THE BUDGET, ZRJPURAVGPNICJODNQICHIH WUMCCNDNLV NOVQTYMPNUXBNQDIJFRQ\$73

3,\$ 7.-46.

2. FINANCE MINISTER RANA MOHAMMED HANIF, ADDRESSING A NATIONAL ASSEMBLY SESSION BOYCOTTED BY ALL BUT ONE MEMBER OF THE OPPOSITION AND ATTENDED BY BARELY ENOUGH MEMBERS TO MAKE A QUORUM, PRESENTED A FY 75/76 BUDGET WITH FEW SURPRISES ON SATURDAY EVENING JUNE 7.

3. NON-DEVELOPMENT EXPENDITURES HAVE BEEN REINED IN VERY TIGHTLY AND ARE NOW BUDGETTED AT RS. 14535.8 MILLION (\$1470 MILLION), ONLY SLIGHTLY MORE THAN THE MOST RECENT ESTIMATES OF THEIR ACTUAL LEVEL IN THE CURRENT YEAR. GIVEN EXPECTED INFLATION OF AT LEAST 20 PERCENT, THIS REPRESENTS A DROP IN REAL TERMS. THIS RESTRAINT HAD BEEN WIDELY RUMORED BEFORE THE BUDGET. IT APPARENTLY REFLECTS THE PRIME MINISTER'S DETERMINATION TO CONTROL NON-DEVELOPMENT EXPENDITURES IN ORDER TO DAMPEN THE CONTINUING INFLATION. THE BIGGEST REDUCTION WAS IN EXPECTED SUBSIDY EXPENDITURES, WHICH AT RS. 1597.5 MILLION (\$161.4MILLION) ARE 47 PERCENT BELOW THE ESTIMATE FOR THE CURRENT YEAR. DEFENSE EXPENDITURES WERE BUDGETTED AT RS. 7027.4 MILLION (\$709.8 MILLION). (SEPARATE CABLE FOLLOWS WITH MORE DETAILED ANALYSIS OF DEFENSE BUDGET). IF THE GOVERNMENT IS ABLE TO KEEP TO THIS EXPENDITURE LEVEL AND IF REVENUES ARE UP TO THE ESTIMATES PRESENTED - BOTH OF WHICH ARE PROBLEMATICAL - THIS WOULD YIELD A REVENUE ACCOUNT SURPLUS OF RS. 990.9 MILLION (\$100 MILLION).

4. THE DEVELOPMENT BUDGET RECEIVED THE PRIMARY EMPHASIS LIMITED OFFICIAL USE

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IN PRE-BUDGET PUBLICITY, AND IN THE FINANCE MINISTER'S SPEECH. AT RS. 1383.5 MILLION (\$1383.5 MILLION), IT IS 27 PERCENT ABOVE 1974/75 EXPENDITURES IN MONEY TERMS, AND ABOUT 7 PERCENT HIGHER IN REAL TERMS. AGRICULTURAL DEVELOPMENT WAS GIVEN THE HIGHEST PRIORITY, WITH SUBSTANTIAL EXPENDITURES FOR AGRICULTURAL INPUTS, WATER MANAGEMENT AND SALINITY CONTROL, AND FERTILIZER PLANTS. THESE EXPENDITURES, PLUS THE AVAILABILITY OF TARBELA

WATER, THE HOPED-FOR RETURN TO NORMAL RAINS, AND THE EXTENSION OF BANKS TO RURAL AREAS, WERE DESIGNED TO HELP PAKISTAN REACH THE PRIME MINISTER'S GOAL OF WHEAT SELF-SUFFICIENCY IN TWO YEARS. NO MENTION WAS MADE OF COOPERATIVE FARMING AND MECHANIZATION. HANIF EXPECTED PAKISTAN TO HAVE A SURPLUS IN FERTILIZER PRODUCTION IN A FEW YEARS.

5. THE SECOND PRIORITY IN THE DEVELOPMENT BUDGET WENT TO INCREASING INVESTMENT GENERALLY. BESIDES THE GOVERNMENT'S PLANS FOR FERTILIZER PLANTS, HANIF MENTIONED THE PLANNED INVESTMENT IN THE KARACHI STEEL MILL, A NUMBER OF POWER PROJECTS, FUEL DEVELOPMENT AND A FEW OTHER INDUSTRIAL PROJECTS. THE STRESS HERE WAS TO BE ON INVESTMENTS WITH A QUICK PAYOFF. TRANSPORTATION AND COMMUNICATIONS INVESTMENT WAS TO BE KEPT TO THE MINIMUM NECESSARY TO PREVENT THE DEVELOPMENT OF BOTTLENECKS. INDUS SUPER-HIGHWAY PROJECT (LIKE ASIAN GAMES) WAS REPORTEDLY SHELVED.

6. FOREIGN AID IS EXPECTED TO FINANCE RS. 11500 MILLION (\$1162 MILLION) OF THE DEVELOPMENT BUDGET, OR 84 PERCENT. TOGETHER WITH THE HOPED-FOR REVENUE SURPLUS AND OTHER DOMESTIC RESOURCES, THIS WOULD LEAVE A GAP OF RS. 1060 MILLION (\$106 MILLION) TO BE FINANCED (ROUGHLY 3 PERCENT OF THE MONEY SUPPLY). OF THIS, THE GOVERNMENT HOPES THAT NEW REVENUE MEASURES WILL BRING IN SOME RS. 300 MILLION (\$31 MILLION). HANIF SAID THAT THE REMAINING DEFICIT WOULD BE FINANCED BY "NONINFLATIONARY RESOURCE MOBILIZATION", BUT IT WAS NOT AT ALL CLEAR WHAT THIS MEANT. THE GOVERNMENT'S ESTIMATE OF THE CASH DEFICIT IS ABOUT THE SAME SIZE AS THIS YEAR'S.

7. TAX CHANGES WERE MINIMAL. MOST WERE SIMPLIFICATIONS, LIMITED OFFICIAL USE

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OR INVOLVED THE REGULARIZATION OF TAXES IMPOSED AS SPECIAL MEASURES. THERE WERE FOUR MORE NOTABLE MEASURES: FIRST, A NEW DUTY OF 20 PERCENT WAS IMPOSED ON IMPORTED FRUITS, CLEARLY AIMED AT AFGHANISTAN. SECONDLY, A DUTY WAS IMPOSED ON COPPER, STEEL, SCRAP IRON AND BILLETS. THIS WILL HELP THE STATE-OWNED TRADING CORPORATION OF PAKISTAN DISPOSE OF ITS LARGE STOCKS OF THESE COMMODITIES, ACQUIRED BEFORE THEIR WORLD PRICES STARTED THEIR RECENT DECLINE. THIRDLY, THE FAMILY ALLOWANCES OR INCOME TAX EXCLUSIONS WERE INCREASED TO RS. 750 PER CHILD, SUBJECT TO A MAXIMUM OF RS. 1500 PER FAMILY. PRESS AND PUBLIC HAVE IMMEDIATELY RECOGNIZED THIS FOR A MIDDLE CLASS FAMILY PLANNING INCENTIVE. FOURTHLY, AMONG A RANGE OF MEASURES TO PUSH PRIVATE INVESTMENT, THE REQUIREMENT THAT AN OWNER MUST OCCUPY A HOUSE TO EXCLUDE IT FROM WEALTH TAX WAS REMOVED. THIS

MIDDLE CLASS (IF NOT CIVIL SERVANT) ORIENTED MEASURE SHOULD  
GIVE A SOLID BOOST TO THE ALREADY BOOMING CONSTRUCTION  
BUSINESS.

8. THE FINANCE MINISTER CALLED FOR MORE SELF-FINANCING  
FROM PUBLIC SECTOR ENTERPRISES, AND ANNOUNCED FORTHCOMING  
INCREASES IN THE RATES FOR ELECTRICITY, POSTAL AND  
TELEGRAPHIC SERVICES. (IN THE SAME VEIN, INCREASES IN  
RAILROAD FREIGHT RATES HAD ALREADY BEEN ANNOUNCED IN THE  
RAILWAY BUDGET ON JUNE 4). HOWEVER, NO OTHER STEPS, SUCH  
AS NEW REGULATIONS OF THESE INDUSTRIES OR A MORE PURSUE  
BUSINESSLIKE SUPERVISION, WERE ANNOUNCED.

9. SOCIAL SECTORS RECEIVED LITTLE ATTENTION IN SPEECH. TWO  
ITEMS MENTIONED UNDER THIS HEADING WERE MALARIA CONTROL  
AND IMPROVED POPULATION PLANNING ORGANIZATION.

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R 101030Z JUN 75

FM AMEMBASSY ISLAMABAD

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10 A NUMBER OF POLICY MEASURES TO ENCOURAGE PRIVATE INVESTMENT WERE ANNOUNCED. WE ARE REPORTING SEPARATELY ON THE NEW GOPVOLICY ON COMPENSATION IN CASES OF NATIONAL-MIZATION. IN ADDITION, A NUMBER OF OTHER MEASURES WERE PROPOSED OFFERING TAX RELIEF TO NEW INVESTORS, INVESTORS IN DEPRESSED AREAS, AND SMALL INVESTORS. THESE MEASURES WERE BILLED AS A RESPONSE TO INVESTOR UNCERTAINTY AND AS CRUCIAL ELEMENTS IN PAKISTAN'S DEVELOPMENT EFFORT.

11. COMMENT: THE TONE OF THIS PERFORMANCE WAS MARKEDLY DEFERENT FROM LAST YEAR. GONE ARE NOT ONLY THE LEFT WING INTRODUCTIONS THAT WERE TYPICAL OF THE PREVIOUS FINANCE MINISTER, MUBASHIR HASSAN, BUT ALSO SOME OF THE EFFERVESCENCE AND COLOR. IT WAS A STRAIGHTFORWARD, FAIRLY CONSERVATIVE BUDGET WITH FEW SURPRISES. THE INITIAL REACTION IN THE LIMITED OFFICIAL USE

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BUSINESS COMMUNITY SEEMS TO BE ONE OF RELIEF, DESPITE SOME GRUMBLING ABOUT THE INCREASES IN DUTIES, ELECTRICITY RATES AND A FEW OTHER CHANGES.

12. HANIF OPENED HIS SPEECH WITH A GLOOMY SURVEY OF THE PAKISTAN ECONOMY, NOTING IN PARTICULAR THAT REAL GNP PER CAPITA HAD DECLINED DURING THE PAST YEAR. HANIF CITED AS REASONS FOR THIS THE STRONG ADVERSE MOVEMENT IN PAKISTAN' TERMS OF TRADE (A THEME MUCH IN EVIDENCE AT THE RECENT AID TO PAKISTAN CONSORTIUM MEETING), THE WORLD SLUMP IN THE TEXTILE MARKET, AND THE "MESS" LEFT BY PRE-BHUTTO GOVERNMENTS, BUT ALSO THE STRONG INFLATION WHICH HE RECOGNIZED HAD RESULTED IN PART FROM GOVERNMENT POLICIES. HE GAVE WARM THANKS TO PAKISTAN'S AID DONORS - BOTH CONSORTIUM AND MUSLIM COUNTRIES. THE PRIMARY REMEDY HE PROPOSED FOROO

PAKISTAN'S ECONOMIC WOES, HOWEVER, WAS ESSENTIALLY HARD WORK- RESTRAINT OF ONON-DEVELOPMENT EXPENDITUES AND INCREASING PRODUCTION THROUGH HIGHER INVESTMENT.

13. WE DOUBT THAT THE DETERMINATION TO HOLD THE LINE ON ROUTINE EXPENDITURES WILL BE COMPLETELY SUCCESSFUL. THE EFFORT TO INCREASE PUBLIC SAVINGS IS WELCOME, BUT THE AGRICULTURAL AND OTHER TAXATION MEASURES NEEDED TO MAKE A BIG IMPACT IN THIS AREA ARE STILL MISSING. SIMILARLY, WE ARE PLEASED WITH THE INVESTMENT INCENTIVES, BUT DOUBT THAT THEY WILL HAVE A DRAMATIC IMPACT ON THE INVESTMENT CLIMATE HERE. BUT THIS BUDGET IS A STEP IN THE RIGHT DIRECTION.

14. AS IN PREVIOUS YEARS, A DETAILED ANALYSIS OF THE BUDGE WILL FOLLOW.

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## Message Attributes

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